**Franchise Tax Board**

# SUMMARY ANALYSIS OF AMENDED BILL

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|---|---|---|---|---|---|
| Author: | Nava | Analyst: | Angela Raygoza | Bill Number: | AB 62 |
| Related Bills: | See Prior Analysis | Telephone: | 845-7814 | Amended Date: | February 22, 2007 |
| | | Attorney: | Douglas Powers | Sponsor: | |

**SUBJECT:** Disaster Loss Deduction/Excess Loss Carryover

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ____________________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 4, 2006, STILL APPLIES.

____ OTHER – See comments below.

## SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the 2006 Riverside and Ventura County wildfires.

## SUMMARY OF AMENDMENTS

The February 22, 2007, amendments expanded the disaster relief dates for the wildfires in Riverside and Ventura counties to include the wildfires that occurred in October and December, 2006.

In addition, the amendments added several co-authors.

As a result of the amendments, the department has identified a technical concern, and the “This Bill” and “Revenue Impact” discussion as provided in the department’s analysis of the bill as introduced December 4, 2006, have been revised.

| Board Position: | | | Legislative Director | Date |
|---|---|---|---|---|
| ____ S | ____ NA | ____ NP | | |
| ____ SA | ____ O | ____ NAR | Brian Putler | 3/9/07 |
| ____ N | ____ OUA | X PENDING | | |

**POSITION**

Pending.

THIS BILL

This bill would add the wildfires that occurred in Riverside and Ventura counties in September, October, and December, 2006, to the current list of specified disasters under the Personal Income Tax (PIT) Law and the Corporation Tax Law. This bill would allow these Governor-only declared disasters to be treated in the same manner as Presidentially declared disasters.

Specifically, this bill would allow special disaster treatment of losses sustained as a result of those disasters. The $100 and 10% of adjusted gross income limitations in existing law would apply to disaster losses on nonbusiness property.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

As written, the bill could be interpreted to allow disaster loss treatment for taxpayers only if they suffered a loss from each of the September, October, "and" December fires. If that is not the author's intent, the author may wish to replace the word "and" with "or" to clarify that a taxpayer needs to suffer a loss from only one of the fires in order to be eligible for disaster loss treatment and not all three fires.

**ECONOMIC IMPACT**

Based on data and assumptions discussed below, the Personal and Corporation Tax revenue impact from this bill would be as follows:

| Revenue Analysis for AB 62 – as amended February 22, 2007<br>Operative January 1, 2005<br>Enactment assumed before June 30, 2007 | | | | |
|---|---|---|---|---|
| Fiscal Year | 2005-06 | 2006-07 | 2007-08 | Cumulative Revenue Impact |
| Disaster Relief | Loss < $150K | Gain < $150K | Gain < $150K | Loss < $150K |

This analysis does not consider any possible changes in employment, personal income, or gross state product that could result from this bill.

This bill would generate minor revenue to the extent that excess losses remain after computing the casualty loss deduction that is allowed against current year taxes. Any remaining deductions that have not been applied can be claimed against taxes paid for the preceding tax year (2005) as a disaster loss. This would result in accelerated revenue losses. To the extent any accelerated deductions would have been claimed by taxpayers with fire-damaged property as a component of its net operating loss (current law) in later years had they not been taken in 2005 as proposed, there is an insignificant revenue gain in those later years.

Based on information received from local county assessors and the California Department of Fire, taxpayers sustained approximately $3.5 million of estimated real property losses. Assuming 20% of such damages would not be reimbursed by insurance but would exceed the 10% AGI limitation, specified fires in the targeted counties caused an estimated $700,000 of potential tax deductions ($3.5 million x 20% = $700,000). If only half of these losses were reported on the 2006 tax year return and <u>all</u> remaining excess casualty losses were deducted on an amended 2005 tax return as proposed, roughly $21,000 in accelerated tax refunds would result ($700,000 deductions x 50% not claimed in 2006 applied to 2005 x 6% tax rate = $21,000 revenue loss).

**LEGISLATIVE STAFF CONTACT**

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